

MULTISTATE AUDIT TECHNIQUE MANUAL (MATM) EXHIBITS

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LEXIS-NEXIS Libraries & Files

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The Lexis-Nexis Service contains a vast amount of data. A key to using the Service effectively is knowing what sources to use to find information. The following is a list of Service Sources commonly used by Multistate Auditors.

Company and Financial Information (CMPNY)

The COMPNY Group File combines all of the major sources of company profiles, except Investext(R). The file includes profiles of companies and company executives, annual reports and other SEC filings, bankruptcy reports, merger and acquisition transactions, earnings reports. The file covers all US public companies, more than 200,000 private US companies, and many thousands of other companies around the world.

COMBINED CORPORATION AND LIMITED PARTNERSHIP FILINGS (ALLSOS)

File comprised of corporate and limited partnership information from 45 states.

Information contained in these documents include:

- Corporation and Limited Partnership names, numbers and status
- Names and addresses of registered agents
- Dates of Incorporation or Qualification

News (ALLNWS)

Contains English language, full-text news sources that part of the Lexis-Nexis Service.

Nationwide US and Canadian Public and Private Company Information (B-Find)

The B-FIND file is a nationwide group file directory of over 11 million US and Canadian Public and Private Companies. It was compiled from city and state directories, interactive customer files, government sources, school files and trade publications. In addition, selected segments of this file are enhanced and verified by Standard and Poor's, a major provider of business and financial information.

CA Deed Transfers, Tax Assessor Records and Mortgage Records - Selected Counties (CAOWN)

The CAOWN is a group file of California tax assessor property record information, deed transfer and mortgage records. Assessor data is collected primarily from tax assessors' offices and deed transfer and mortgage data primarily from county recorders' offices.

Although individual records may vary in content, most documents include the following:

- owner, buyer and/or seller name(s)
- property and/or mailing address
- sale price

- assessor parcel number
- property use

Counties may vary for Tax Assessor Property, Deed Transfer and Mortgage Records.

Federal and State Case Law (MEGA)

The complete combination of Federal and State caselaw provides all available caselaw in one stop. It includes U.S. Supreme Court, U.S. Court of Appeals, Federal District Courts and State Caselaw for all 50 States plus the District of Columbia, Puerto Rico, Virgin Islands and other U.S. territories. Also included are specialty courts such as Military Appeals, Customs, Patents, Tax, Trade, Commerce, Veteran Appeals and Bankruptcy. Refer to the guide document for specific courts to obtain coverage and currentness information

Federal and State Cases - 9th Circuit (9MEGA)

The Ninth Circuit combination of Federal and State caselaw provides all available caselaw for jurisdictions relating to the Ninth Circuit. It includes U.S. Supreme Court, U.S. Court of Appeals for the Ninth Circuit, as well as the Federal District Courts, Bankruptcy Courts and State Courts for Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon and Washington. Additionally, the District Courts for Guam and the Northern Mariana Islands are included.

CA Federal and State Case Law (CAMEGA)

The California combination of Federal and State case law provides all available case law for jurisdictions relating to California.

The Federal case law includes the U.S. Supreme Court, U.S. Courts of Appeal for the Ninth Circuit, as well as the U.S. District Court and Bankruptcy Courts for the State of California.

The State case law includes the Supreme Court of California (since 1850) and the California Courts of Appeal. Also included are officially reported cases of the Appellate Department of the Superior Courts.

CA Bill Tracking and Full-Text Bills (CABILL)

California bill tracking and bill text from the current session.

CA Cases, Administrative Decisions, and Attorney General Opinions (CACASE)

California caselaw decided by the California Supreme Court, California Courts of Appeal, Opinions from the California Board of Equalization and Franchise Tax, California Department of Corporations, California Public Utilities Commission, California Water Resource Control Board, and Office of the California Attorney General.

CA Board of Equalization and Franchise Tax Board Decisions (CATAX)

Tax related materials issued by the California State Board of Equalization, and the Franchise Tax Board, including promulgated and proposed rules and regulations, bulletins opinion, and orders, legal rulings and FTB notices.

**Employer's Annual Federal
Unemployment (FUTA) Tax Return**

OMB No. 1545-0028

1998

▶ See separate instructions for information on completing this return.

Name (as distinguished from trade name)

Calendar year

Trade name, if any

Address and ZIP code

Employer identification number

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A Are you required to pay unemployment contributions to only one state? (If "No," skip questions B and C.) ☐ Yes ☐ No**B** Did you pay all state unemployment contributions by February 1, 1999? ((1) If you deposited your total FUTA tax when due, check "Yes" if you paid all state unemployment contributions by February 10. (2) If a 0% experience rate is granted, check "Yes." (3) If "No," skip question C.) ☐ Yes ☐ No**C** Were all wages that were taxable for FUTA tax also taxable for your state's unemployment tax? ☐ Yes ☐ No

If you answered "No" to any of these questions, you must file Form 940. If you answered "Yes" to all the questions, you may file Form 940-EZ, which is a simplified version of Form 940. (Successor employers see **Special credit for successor employers** on page 3 of the instructions.) You can get Form 940-EZ by calling 1-800-TAX-FORM (1-800-829-3676) or from the IRS's Internet Web Site at www.irs.ustreas.gov.

If you will not have to file returns in the future, check here, and complete and sign the return ☐If this is an Amended Return, check here ☐**Part I Computation of Taxable Wages**

1 Total payments (including payments shown on lines 2 and 3) during the calendar year for services of employees	1	
2 Exempt payments. (Explain all exempt payments, attaching additional sheets if necessary.) ▶	2	
3 Payments for services of more than \$7,000. Enter only amounts over the first \$7,000 paid to each employee. Do not include any exempt payments from line 2. The \$7,000 amount is the Federal wage base. Your state wage base may be different. Do not use your state wage limitation	3	
4 Total exempt payments (add lines 2 and 3)	4	
5 Total taxable wages (subtract line 4 from line 1) ▶	5	

Be sure to complete both sides of this return, and sign in the space provided on the back.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 112340

Form **940** (1998)

DETACH HERE

Form 940 Payment Voucher

OMB No. 1545-0028

1998

Use this voucher only when making a payment with your return.

Complete boxes 1, 2, 3, and 4. Do not send cash, and do not staple your payment to this voucher. Make your check or money order payable to the "United States Treasury". Be sure to enter your employer identification number, "Form 940", and "1998" on your payment.

1 Enter the amount of the payment you are making	2 Enter the first four letters of your last name (business name if partnership or corporation)	3 Enter your employer identification number
▶ \$		
Instructions for Box 2	4 Enter your business name (individual name for sole proprietors)	
—Individuals (sole proprietors, trusts, and estates)— Enter the first four letters of your last name.	Enter your address	
—Corporations and partnerships—Enter the first four characters of your business name (omit "The" if followed by more than one word).	Enter your city, state, and ZIP code	



Instructions for Form 940

Employer's Annual Federal Unemployment (FUTA) Tax Return

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Items To Note

New worksheet for computing the Part II, line 6 credit if state contributions were paid late. Filers who made contributions to their state unemployment fund after the due date for filing Form 940 should complete the new worksheet provided in the instructions for line 6 on page 5 to compute the allowable credit. **Do not** report such contributions in Part II, line 3, column (i) or on line 3b. Any credit allowed for such state contributions will appear on line 6.

Electronic deposit requirement. If your total deposits of social security, Medicare, railroad retirement, and withheld income taxes were more than \$50,000 in 1997, you must make electronic deposits for **all** depository tax liabilities (including FUTA tax) that occur after 1998 using the Electronic Federal Tax Payment System (EFTPS). However, if you were first required to use EFTPS on or after July 1, 1997, no penalties for failure to use EFTPS will be imposed for tax liabilities that occur prior to July 1, 1999. To enroll in EFTPS, call 1-800-945-8400 or 1-800-555-4477. For general information about EFTPS, call 1-800-829-1040.

Preprinted EIN relocated. To ensure privacy, we have relocated the employer identification number on preprinted forms to an area above the envelope window.

State unemployment information. Employers must contact their state unemployment tax offices to receive their state reporting number, state experience rate, and details about their state unemployment tax obligations.

Purpose of Form

Use this form to report your annual Federal Unemployment Tax Act (FUTA) tax. FUTA tax, together with state unemployment systems, provides for payments of unemployment compensation to workers who have lost their jobs. Most employers pay both Federal and state unemployment taxes. Only the employer pays FUTA tax. Do not collect or deduct it from your employees' wages. The tax applies to the first \$7,000 you pay each employee in a year. The \$7,000 amount is the Federal wage base. Your state wage base may be different.

Form 940-EZ, Employer's Annual Federal Unemployment (FUTA) Tax Return, is a simpler version of Form 940. You may use it instead of Form 940 to report your annual FUTA tax if—

1. You paid unemployment contributions to only one state,

2. You paid all state unemployment contributions by February 1, 1999 (February 10 if you deposited all FUTA tax when due), and

3. All wages that were taxable for FUTA tax were also taxable for your state's unemployment tax. If, for example, you paid wages to corporate officers (these wages are taxable for FUTA tax) in a state that exempts these wages from its unemployment tax, you cannot use Form 940-EZ. **Note:** A successor employer claiming a credit for state unemployment contributions paid by the prior employer must file Form 940.

For details, get Form 940-EZ. **Do not file Form 940 if you have already filed Form 940-EZ for 1998.** However, see **Amended returns** on page 4.

When To File

File Form 940 for 1998 by February 1, 1999. However, if you deposited all FUTA tax when due, you may file on or before February 10, 1999. Your return will be considered timely filed if it is properly addressed and mailed First Class or sent by an IRS designated delivery service by the due date. See **Circular E (Pub. 15)**, Employer's Tax Guide, for a list of designated delivery services.

Caution: Private delivery services cannot deliver items to P.O. boxes.

Who Must File

Except as noted below, you must file if Test 1 **or** Test 2 applies.

Test 1. You paid wages of \$1,500 or more in any calendar quarter in 1997 or 1998.

Test 2. You had one or more employees for at least some part of a day in any 20 or more different weeks in 1997 or 20 or more different weeks in 1998.

Count all regular, temporary, and part-time employees. A partnership should not count its partners. If there is a change in ownership or other transfer of business during the year, each employer who meets Test 1 or 2 must file. **Do not** report wages paid by the prior (or subsequent) employer.

Household employers. File a FUTA tax return **ONLY** if you paid total cash wages of \$1,000 or more (for all household employees) in any calendar quarter in 1997 or 1998 for household work in a private home, local college club, or local chapter of a college fraternity or sorority. Individuals, estates, and trusts that owe FUTA tax for **household work** in a private home, in most cases, must

file **Schedule H (Form 1040)**, Household Employment Taxes, instead of Form 940 or 940-EZ. See the instructions for Schedule H (Form 1040).

In some cases, such as when you employ both household employees and other employees, you may have the option to report social security, Medicare, and withheld Federal income taxes for your household employee(s) on **Form 941**, Employer's Quarterly Federal Tax Return, or **Form 943**, Employer's Annual Tax Return for Agricultural Employees, instead of on Schedule H. If you reported your household employee's wages on Form 941 or 943, you must use Form 940 or 940-EZ to report FUTA tax.

Agricultural employers. File a FUTA tax return if either 1 or 2 below applies:

1. You paid cash wages of \$20,000 or more to farmworkers during any calendar quarter in 1997 or 1998 or

2. You employed 10 or more farmworkers during at least some part of a day (whether or not at the same time) during any 20 or more different weeks in 1997 or 20 or more different weeks in 1998.

Count wages paid to aliens admitted on a temporary basis to the United States to perform farmwork, also known as workers with "H-2(A)" visas, to see if you meet either 1 or 2. However, wages paid to H-2(A) visa workers are not subject to FUTA tax.

Nonprofit organizations. Religious, educational, charitable, etc., organizations described in section 501(c)(3) and exempt from tax under section 501(a) are not subject to FUTA tax and are not required to file.

State and local government employees. Wages paid to state or local government employees are not subject to FUTA tax.

Where To File

In the list below, find the location where your legal residence, principal place of business, office, or agency is located. Send your return to the **Internal Revenue Service** at the address listed for your location. No street address is needed.

Note: *Where you file depends on whether or not you are including a payment.*

Florida, Georgia, South Carolina

Return without payment:
Atlanta, GA 39901-0046

Return with payment:
P.O. Box 105887
Atlanta, GA 30348-5887

New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)

Return without payment:
Holttsville, NY 00501-0046

Return with payment:
P.O. Box 1365
Newark, NJ 07101-1365

New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

Return without payment:
Andover, MA 05501-0046

Return with payment:
P.O. Box 371307
Pittsburgh, PA 15250-7307

Illinois, Iowa, Minnesota, Missouri, Wisconsin

Return without payment:
Kansas City, MO 64999-0046

Return with payment:
P.O. Box 970010
St. Louis, MO 63197-0010

Delaware, District of Columbia, Maryland, Pennsylvania, Puerto Rico, Virginia, U.S. Virgin Islands

Return without payment:
Philadelphia, PA 19255-0046

Return with payment:
P.O. Box 8726
Philadelphia, PA 19162-8726

Indiana, Kentucky, Michigan, Ohio, West Virginia

Return without payment:
Cincinnati, OH 45999-0046

Return with payment:
P.O. Box 6977
Chicago, IL 60680-6977

Kansas, New Mexico, Oklahoma, Texas

Return without payment:
Austin, TX 73301-0046

Return with payment:
P.O. Box 970017
St. Louis, MO 63197-0017

Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming

Return without payment:
Ogden, UT 84201-0046

Return with payment:
P.O. Box 7024
San Francisco, CA 94120-7024

California (all other counties), Hawaii

Return without payment:
Fresno, CA 93888-0046

Return with payment:
P.O. Box 60378
Los Angeles, CA 90060-0378

Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee

Return without payment:
Memphis, TN 37501-0046

Return with payment:
P.O. Box 1210
Charlotte, NC 28201-1210

If the location of your legal residence or principal place of business is not listed above

All Returns:
Philadelphia, PA 19255-0046

Magnetic Media Reporting

You may file Form 940 using magnetic media. See Rev. Proc. 96-18, 1996-1 C.B. 637, for the procedures and **Pub. 1314** for the tape specifications.

Penalties and Interest

Avoid penalties and interest by making tax deposits when due, filing a correct return, and paying all taxes when due. There are penalties for late deposits and late filing unless you can show reasonable cause. If you file late, attach an explanation to the return. There are also penalties for willful failure to pay tax, keep records, make returns, and for filing false or fraudulent returns. Get Circular E (Pub. 15), for more information on penalties.

Not Liable for FUTA Tax

If you receive Form 940 and are not liable for FUTA tax for 1998, write "Not Liable" across the front of the form, sign the return, and return it to the IRS.

Credit for Contributions Paid to a State Fund

You get a credit for amounts you pay to a state (including the District of Columbia, Puerto Rico, and the U.S. Virgin Islands) unemployment fund by February 1, 1999 (or February 10, 1999, if that is your Form 940 due date). Your FUTA tax will be higher if you do not pay the state contributions timely. See the line 6 instructions on page 5 if you did not pay state contributions by the due date of Form 940.

"Contributions" are payments that a state requires an employer to make to its unemployment fund for the payment of unemployment benefits. However, contributions do not include:

- Any payments deducted or deductible from your employees' pay.
- Penalties, interest, or special administrative taxes not included in the contribution rate the state assigned to you.
- Voluntary contributions paid to get a lower assigned rate.

You may receive an additional credit if you have a state experience rate lower than 5.4% (.054). This applies even if your rate is different during the year. This **additional** credit is equal to the difference between actual payments and the amount you would have been required to pay at 5.4%.

The total credit allowable may not be more than 5.4% of the total taxable FUTA wages.

Special credit for successor employers. A successor employer is an employer who received a unit of another employer's trade or business or all or most of the property used in the trade or business of another employer. Immediately after the acquisition, the successor employer must employ one or more individuals who were employed by the previous owner.

You may be eligible for a credit based on the state unemployment contributions paid by the previous employer. You may claim these credits if you are a successor employer and acquired a business in 1998 from a previous employer who was not required to file Form 940 or 940-EZ for 1998. **If you are eligible to take this credit, you must file Form 940; you may not use Form 940-EZ.** See section 3302(e). Enter in Part II, line 3, columns (a) through (i) the information of the previous employer as if you paid the amounts.

Successor employers may be able to count the wages that the previous employer paid to their employees to meet the \$7,000 wage base. See the instructions for Part I, line 3 on page 4.

Depositing FUTA Tax

When to deposit. Although Form 940 covers a calendar year, you may have to make deposits of the tax before filing the return. Generally, deposit FUTA tax quarterly but only when your liability exceeds \$100. Determine your FUTA tax for each of the first three quarters by multiplying by .008 that part of the first \$7,000 of each employee's annual wages you paid during the quarter. If any part of the amounts paid are exempt from state unemployment tax, you may be required to deposit an amount greater

than that determined using the .008 rate. For example, in certain states, wages paid to corporate officers, certain payments of sick pay by unions, and certain fringe benefits, are exempt from state unemployment tax.

If your FUTA tax liability for any of the first three quarters of 1998 (plus any undeposited amount of \$100 or less from any earlier quarter) is over \$100, deposit it by the last day of the month after the end of the quarter. If it is \$100 or less, carry it to the next quarter; a deposit is not required. If your liability for the fourth quarter (plus any undeposited amount from any earlier quarter) is over \$100, deposit the entire amount by February 1, 1999. If it is \$100 or less, you can either make a deposit or pay it with your Form 940 by February 1. (If you deposit it by February 1, you may file Form 940 by February 10, 1999.)

The deposit due dates are shown in the following chart:

If undeposited FUTA tax is over \$100 on—		Deposit it by—
March 31		April 30
June 30		July 31
September 30		October 31
December 31		February 1

Note: *If any deposit due date shown falls on a Saturday, Sunday, or legal holiday, you may deposit on the next business day.*

How to deposit. If you are not required to use EFTPS (See **Electronic deposit requirement** on page 1), use **Form 8109**, Federal Tax Deposit Coupon, when you make each tax deposit. The IRS will send you a book of deposit coupons when you apply for an employer identification number (EIN). Follow the instructions in the coupon book. If you do not have coupons, see section 11 in Circular E (Pub. 15).

Make your deposits with an authorized financial institution (e.g., a commercial bank that is qualified to accept Federal tax deposits) or the Federal Reserve bank for your area. To avoid a possible penalty, do not mail deposits directly to the IRS. Records of your deposits will be sent to the IRS for crediting to your business accounts.

Specific Instructions

Employer's name, address, and employer identification number. Use the preaddressed Form 940 mailed to you. If you must use a form that is not preaddressed, type or print your name, trade name, address, and EIN on it. If you do not have an EIN, apply for one on **Form SS-4**, Application for Employer Identification Number. If you do not have your EIN by the time a return is due, write "Applied for" and the date you applied for the number.

Questions A through C. The answers to the questions will direct you to the correct form to file. If you answered "Yes" to all the questions, you may file Form 940-EZ, a simpler version of Form 940. If you answer "No" to any of the questions or you are a successor employer claiming a credit for state unemployment contributions paid by the prior employer, complete and file Form 940.

Final return. If you will not have to file returns in the future, check the box on the line below question C. Then

complete and sign the return. If you start paying FUTA wages again, file Form 940 or 940-EZ.

Amended returns. Use a new Form 940 to amend a previously filed Form 940. Check the Amended Return box above Part I. Enter all amounts that should have been on the original return, and sign the form. Attach an explanation of the reasons for the amended return. For example, you are filing to claim the 90% credit for contributions paid to your state unemployment fund after the due date of Form 940. File the amended return with the Internal Revenue Service Center where you filed the original return.

If you were required to file Form 940 but filed Form 940-EZ instead and you must correct an error, file the amended return on Form 940.

If you are filing an amended return after June 30 to claim contributions to your state's unemployment fund that you paid after the due date of Form 940, attach a copy of the certification from the state. This will expedite the processing of the amended return.

Part I — Computation of Taxable Wages

Line 1 — Total payments. Enter the total payments you made during the calendar year for services of employees, even if the payments are not taxable for FUTA tax. Include salaries, wages, commissions, fees, bonuses, vacation allowances, and amounts paid to temporary or part-time employees; the value of goods, lodging, food, clothing, and noncash fringe benefits; contributions to a 401(k) plan, payments to medical savings accounts (MSA), payments under adoption assistance programs, and contributions to SIMPLE retirement accounts (including elective salary reduction contributions); section 125 (cafeteria) plan benefits; and sick pay (including third party sick pay if liability transferred to employer). For details on sick pay, see **Pub. 15-A**, Employer's Supplemental Tax Guide. Include tips of \$20 or more in a month reported to you by your employees. Also, include payments made by a previous employer if you are counting those payments for the \$7,000 wage base as explained under **Successor employer** in the line 3 instructions below. Enter the amount before any deductions.

How you make the payments is not important to determine if they are wages. Thus, you may pay wages for piecework or as a percentage of profits. You may pay wages hourly, daily, weekly, monthly, or yearly. You may pay wages in cash or some other way, such as goods, lodging, food, or clothing. For items other than cash, use the fair market value when paid.

Line 2 — Exempt payments. The amounts reported on line 2 are exempt from FUTA tax. **Do not** enter payments over \$7,000 for each employee. Enter such amounts on line 3. For FUTA purposes, "wages" and "employment" do not include every payment and every kind of service an employee may perform. In general, payments excluded from wages and payments for services excepted from employment are not subject to FUTA tax.

You may deduct exempt payments from total payments only if you explain them on line 2. Amounts that may be exempt from your state's unemployment tax, for example, corporate officers' wages, may not be exempt from FUTA tax.

Enter payments such as the following on line 2 if you included them in total payments on line 1:

1. Agricultural labor if you did not meet either 1 or 2 under **Agricultural employers** on page 2 and **all** payments to H-2(A) visa workers.

2. Benefit payments for sickness or injury under a workers' compensation law.

3. Household services if you did not pay total cash wages of \$1,000 or more in any calendar quarter in 1997 or 1998.

4. Certain family employment. (See Cir. E (Pub. 15).)

5. Certain fishing activities. (See **Pub. 595**, Tax Highlights for Commercial Fishermen).

6. Noncash payments for farmwork or household services in a private home. Only cash wages to these workers are taxable.

7. Value of certain meals and lodging. (See Section 5 in Cir. E (Pub. 15).)

8. Cost of group-term life insurance.

9. Payments attributable to the employee's contributions to a sick-pay plan.

10. Employer contributions to a SIMPLE retirement account (other than elective salary reduction contributions).

11. Employer payments to a medical savings account (MSA).

12. Benefits excludable under a section 125 (cafeteria) plan.

13. Certain statutory employees. (See Pub. 15-A.)

14. Services performed by an inmate of a penal institution.

15. Any other exempt service or pay.

For more information, see **Special Rules for Various Types of Services and Payments** in Circular E (Pub. 15) or **How Do Employment Taxes Apply to Farmwork?** in **Circular A**, Agricultural Employer's Tax Guide (Pub. 51).

Line 3 — Payments for services of more than \$7,000.

Enter the total amounts over \$7,000 you paid each employee. For example, if you have 10 employees and paid each \$8,000 during the year, enter \$80,000 on line 1 and \$10,000 on line 3. **Only the first \$7,000 paid to each employee is subject to FUTA tax. Do not use the state wage base for this entry. The state wage base may be different from the Federal wage base of \$7,000. Do not include any exempt payments from line 2 in figuring the \$7,000.**

Successor employer. If you acquired a business from an employer who was liable for FUTA tax, you may count the wages that employer paid to the employees who continue to work for you when you figure the \$7,000 wage base. Include on line 3 the payments made by the previous employer that you included on line 1. If the first employer paid \$7,000 or more to the employee, also include on line 3 all the wages you paid to that employee. If the first employer did not pay at least \$7,000 to the employee, subtract what the first employer paid from \$7,000. Then subtract that result from the wages you paid to the employee, and include any result on line 3. See section 3306(b)(1) and Regulations section 31.3306(b)(1)-1(b).

Line 5 — Total taxable wages. This is the total amount subject to FUTA tax. Use this amount in Part II to compute the gross FUTA tax and the maximum credit.

Part II — Tax Due or Refund

Line 1 — Gross FUTA tax. Multiply the total taxable wages in Part I, line 5, by .062. This is the maximum amount of FUTA tax.

Line 2 — Maximum credit. Multiply the total taxable wages in Part I, line 5, by .054. This is the maximum credit against FUTA tax for state contributions.

Line 3 — Computation of tentative credit. You must complete all applicable columns to receive any credit. Your state will provide an experience rate. If you have been assigned an experience rate of 0% or more, but less than 5.4%, for all or part of the year, use columns (a) through (i). If you have **not** been assigned any experience rate, use columns (a), (b), (c), and (i) only. If you have been assigned a rate of 5.4% or higher, use columns (a), (b), (c), (d), (e), and (i) only. If you were assigned an experience rate for only part of the year or the rate was changed during the year, complete a separate line for each rate period.

If you need additional lines, attach a separate statement with a similar format. Also, if you are a successor employer, see **Special credit for successor employers**, on page 3.

Column (a). Enter the two-letter abbreviation for the state(s) to which you were required to pay contributions (including the District of Columbia, Puerto Rico, and the U.S. Virgin Islands).

Column (b). Enter the state reporting number assigned to you when you registered as an employer with each state. Failure to enter the correct number may result in unnecessary correspondence.

Column (c). Enter the state taxable payroll on which you must pay state unemployment taxes for each state shown in column (a). If your experience rate is 0%, enter the wages that would have been subject to state unemployment tax if the 0% rate had not been granted.

Column (d). Enter the beginning and ending dates of the experience rate shown in column (e).

Column (e). Enter your state experience rate—the rate the state assigned to you for paying your state unemployment tax. This rate may change based on your “experience” with the state unemployment fund, for example, because of unemployment compensation paid to your former employees. If you do not know your experience rate, contact your state unemployment insurance service. The state experience rate can be stated as a percent or as a decimal.

Column (f). Multiply the amount in column (c) by .054.

Column (g). Multiply the amount in column (c) by the rate in column (e).

Column (h). Subtract column (g) from column (f). If zero or less, enter -0-. This additional credit is the difference between 5.4% and your state experience rate.

Column (i). Enter the contributions **actually paid** to the state unemployment fund **by the due date** for filing Form 940. **Do not** include amounts you are required to pay but have not paid by the due date (see **When To File** on

page 1). If you are **filing Form 940 after the due date**, include only payments made by the return due date, and see the instructions and worksheet under line 6 below. If you are **claiming excess credits** as payments of state unemployment contributions, attach a copy of the letter from your state. **Do not** include any penalties, interest, or special administrative taxes (such as surcharges, employment and training taxes, excise tax, and assessments, which are generally listed as a separate item on the state's quarterly wage report) not included in the experience rate assigned to you.

Line 3a — Totals. Enter the totals of columns (c), (h), and (i).

Line 3b — Total tentative credit. Add line 3a, columns (h) and (i) only. As noted above, column (i) includes **only** payments to your state unemployment fund that you made by the due date for filing Form 940. Payments made after the due date are eligible for a reduced credit and will appear on line 6 as described below.

Line 6 — Credit. This is the credit allowable for your payments to state unemployment funds. If you made no late state contributions, enter the smaller of the amount in Part II, line 2 or line 3b. If you do not have to make payments to the state, enter zero on this line.

Note: *If any any state contributions were made after the Form 940 due date (see **When To File** on page 1), your credit for late contributions is limited to 90% of the amount that would have been allowable as a credit if such contributions were paid on or before the Form 940 due date.*

Only taxpayers who made late contributions should complete the worksheet below.

Worksheet for Credit Computation if Any State Contributions Were Paid After the Due Date for Filing Form 940	
A.	Enter the amount from Form 940, Part II, line 2
B.	Enter the amount from Form 940, Part II, line 3b, if any.
C.	Subtract line B from line A. If less than zero, enter -0-
D.	Enter total contributions paid to the states after the Form 940 due date.
E.	Enter the smaller of lines C or D.
F.	Multiply line E by .90 (90%)
G.	Add lines B and F
H.	Enter the smaller of the amount on line G or A here, and on Form 940, Part II, line 6

Example: You paid \$1,500 of state contributions by the Form 940 due date and \$1,000 after that date. Your maximum credit on Form 940, Part II, line 2 is \$2,000; and your tentative credit on line 3b is \$1,500. The maximum credit less the tentative credit is \$500. If you had paid the \$1,000 state contributions on time, you would have been allowed an additional amount of credit of only \$500 not the full \$1,000. Therefore, the credit for the late contributions is limited to 90% of \$500. You complete the worksheet as shown on page 6.

A. Enter the amount from Form 940, Part II, line 2	\$2,000
B. Enter the amount from Form 940, Part II, line 3b, if any.	1,500
C. Subtract line B from line A. If less than zero, enter -0-	500
D. Enter total contributions paid to the states after the Form 940 due date.	1,000
E. Enter the smaller of lines C or D.	500
F. Multiply line E by .90 (90%)	450
G. Add lines B and F	1,950
H. Enter the smaller of the amount on line G or A here, and on Form 940, Part II, line 6	1,950

Enter \$1,950 from line H of the worksheet on Form 940, Part II, line 6. This is the allowable credit for your contributions to the state unemployment fund.

Line 9 — Balance due. Make your check or money order payable to the "United States Treasury". Write your EIN, "Form 940", and "1998" on your check or money order. Enter the amount of the payment in box 1 on Form 940-V at the bottom of Form 940. If the employer information is not preprinted on the payment voucher, enter the requested information. If the amount on line 9 is under \$1, you do not have to pay it. On payments over \$100, see **How to deposit** on page 3.

Line 10 — Overpayment. If the amount on line 10 is under \$1, we will send a refund or apply it to your next return only on written request.

Part III — Record of Quarterly Federal Unemployment Tax Liability

Complete this part only if your FUTA tax on line 7 is over \$100. To figure your FUTA tax liability for each quarter, multiply by .008 that part of the first \$7,000 of each employee's annual wages you paid during the quarter. Enter the result in the space for that quarter. Your total liability ("Total for year") must equal your total tax shown in Part II, line 7.

Record your liability based on when you pay wages, not on when you deposit the FUTA tax. For example, if you

pay wages on March 29, your FUTA tax liability on those wages is \$200, and you deposit the \$200 on April 30, you would record that \$200 in the first quarter, not in the second.

Privacy Act and Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States. We need it to figure and collect the right amount of tax. Chapter 23, Federal Unemployment Tax Act, of Subtitle C, Employment Taxes, of the Internal Revenue Code imposes a tax on employers with respect to employees. This form is used to determine the amount of the tax that you owe. Section 6011 requires you to provide the requested information if you are liable for FUTA tax under section 3301. Section 6109 requires you to provide your employer identification number (EIN).

Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and to cities, states, and the District of Columbia for use in administering their tax laws. If you fail to provide this information in a timely manner, you may be subject to penalties and interest.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 11 hr., 29 min.; **Learning about the law or the form**, 1hr., 5 min.; **Preparing and sending the form to the IRS**, 1hr., 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send the tax form to this office. Instead, see **Where To File** on page 2.

Part II Tax Due or Refund

1	Gross FUTA tax. Multiply the wages in Part I, line 5, by .062	1						
2	Maximum credit. Multiply the wages in Part I, line 5, by .054 2							
3	Computation of tentative credit (Note: All taxpayers must complete the applicable columns.)							
(a) Name of state	(b) State reporting number(s) as shown on employer's state contribution returns	(c) Taxable payroll (as defined in state act)	(d) State experience rate period	(e) State ex- perience rate	(f) Contributions if rate had been 5.4% (col. (c) x .054)	(g) Contributions payable at experience rate (col. (c) x col. (e))	(h) Additional credit (col. (f) minus col.(g)). If 0 or less, enter -0-	(i) Contributions paid to state by 940 due date
			From	To				
3a	Totals . . . ▶							
3b	Total tentative credit (add line 3a, columns (h) and (i) only—for late payments also see the instructions for Part II, line 6 ▶							
4								
5								
6	Credit: Enter the smaller of the amount in Part II, line 2 or line 3b; or amount from the worksheet in the line 6 instructions							6
7	Total FUTA tax (subtract line 6 from line 1). If the result is over \$100, also complete Part III . . .							7
8	Total FUTA tax deposited for the year, including any overpayment applied from a prior year . . .							8
9	Balance due (subtract line 8 from line 7). Pay to the "United States Treasury". If you owe more than \$100, see "Depositing FUTA Tax" on page 3 of the instructions ▶							9
10	Overpayment (subtract line 7 from line 8). Check if it is to be: <input type="checkbox"/> Applied to next return or <input type="checkbox"/> Refunded ▶							10

Part III Record of Quarterly Federal Unemployment Tax Liability (Do not include state liability.) Complete only if line 7 is over \$100. See page 6 of the instructions.

Quarter	First (Jan. 1–Mar. 31)	Second (Apr. 1–June 30)	Third (July 1–Sept. 30)	Fourth (Oct. 1–Dec. 31)	Total for year
Liability for quarter					

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and, to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was, or is to be, deducted from the payments to employees.

Signature ▶

Title (Owner, etc.) ▶

Date ▶



Employer's Quarterly Federal Tax Return

► See separate instructions for information on completing this return.

Please type or print.

Enter state code for state in which deposits were made ONLY if different from state in address to the right ► (see page 2 of instructions).

Name (as distinguished from trade name)

Date quarter ended

OMB No. 1545-0029

Trade name, if any

Employer identification number

Address (number and street)

City, state, and ZIP code

T

FF

FD

FP

I

T

If address is different from prior return, check here ►

IRS Use

1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	3	3	3	4	4	4	5	5	5
6	7	8	8	8	8	8	8	8	8	9	9	9	9	9	10	10	10	10	10	10	10	10	10

If you do not have to file returns in the future, check here ► and enter date final wages paid ►

If you are a seasonal employer, see **Seasonal employers** on page 1 of the instructions and check here ►

1	Number of employees in the pay period that includes March 12th . ►	1	
2	Total wages and tips, plus other compensation	2	
3	Total income tax withheld from wages, tips, and sick pay	3	
4	Adjustment of withheld income tax for preceding quarters of calendar year	4	
5	Adjusted total of income tax withheld (line 3 as adjusted by line 4—see instructions)	5	
6	Taxable social security wages	6a	
	Taxable social security tips	6c	
7	Taxable Medicare wages and tips	7a	
8	Total social security and Medicare taxes (add lines 6b, 6d, and 7b). Check here if wages are not subject to social security and/or Medicare tax ►	8	
9	Adjustment of social security and Medicare taxes (see instructions for required explanation) Sick Pay \$ _____ ± Fractions of Cents \$ _____ ± Other \$ _____ =	9	
10	Adjusted total of social security and Medicare taxes (line 8 as adjusted by line 9—see instructions)	10	
11	Total taxes (add lines 5 and 10)	11	
12	Advance earned income credit (EIC) payments made to employees	12	
13	Net taxes (subtract line 12 from line 11). If \$1,000 or more, this must equal line 17, column (d) below (or line D of Schedule B (Form 941))	13	
14	Total deposits for quarter, including overpayment applied from a prior quarter	14	
15	Balance due (subtract line 14 from line 13). See instructions	15	
16	Overpayment. If line 14 is more than line 13, enter excess here ► \$ _____ and check if to be: <input type="checkbox"/> Applied to next return OR <input type="checkbox"/> Refunded. • All filers: If line 13 is less than \$1,000, you need not complete line 17 or Schedule B (Form 941). • Semiweekly schedule depositors: Complete Schedule B (Form 941) and check here ► <input type="checkbox"/> • Monthly schedule depositors: Complete line 17, columns (a) through (d), and check here ► <input type="checkbox"/>		

17 Monthly Summary of Federal Tax Liability. Do not complete if you were a semiweekly schedule depositor.			
(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter

Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature ►

Print Your Name and Title ►

Date ►

Where to file. In the list below, find the state where your legal residence, principal place of business, office, or agency is located. Send your return to the **Internal Revenue Service** at the address listed for your location. No street address is needed. **Note:** *Where you file depends on whether or not you are including a payment.*

Florida, Georgia, South Carolina

Return without payment:

Atlanta, GA 39901-0005

Return with payment:

P.O. Box 105703
Atlanta, GA 30348-5703

New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)

Return without payment:

Holtsville, NY 00501-0005

Return with payment:

P.O. Box 416
Newark, NJ 07101-0416

New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

Return without payment:

Andover, MA 05501-0005

Return with payment:

P.O. Box 371493
Pittsburgh, PA 15250-7493

Illinois, Iowa, Minnesota, Missouri, Wisconsin

Return without payment:

Kansas City, MO 64999-0005

Return with payment:

P.O. Box 970007
St. Louis, MO 63197-0007

Delaware, District of Columbia, Maryland, Pennsylvania, Virginia

Return without payment:

Philadelphia, PA 19255-0005

Return with payment:

P.O. Box 8786
Philadelphia, PA 19162-8786

Indiana, Kentucky, Michigan, Ohio, West Virginia

Return without payment:

Cincinnati, OH 45999-0005

Return with payment:

P.O. Box 7329
Chicago, IL 60680-7329

Kansas, New Mexico, Oklahoma, Texas

Return without payment:

Austin, TX 73301-0005

Return with payment:

P.O. Box 970013
St. Louis, MO 63197-0013

Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming

Return without payment:

Ogden, UT 84201-0005

Return with payment:

P.O. Box 7922
San Francisco, CA 94120-7922

California (all other counties), Hawaii

Return without payment:

Fresno, CA 93888-0005

Return with payment:

P.O. Box 60407
Los Angeles, CA 90060-0407

Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee

Return without payment:

Memphis, TN 37501-0005

Return with payment:

P.O. Box 70503
Charlotte, NC 28272-0503

If you have no legal residence or principal place of business in any state

All returns:

Philadelphia, PA 19255-0005

Privacy Act and Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States. We need it to figure and collect the right amount of tax. Subtitle C, Employment Taxes, of the Internal Revenue Code imposes employment taxes on wages, including income tax withholding. This form is used to determine the amount of the taxes that you owe. Section 6011 requires you to provide the requested information if the tax is applicable to you. Section 6109 requires you to provide your employer identification number (EIN). Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and to cities, states, and the District of Columbia for use in administering their tax laws. If you fail to provide this information in a timely manner, you may be subject to penalties and interest.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books and records relating to a form or instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

For Form 941:

Recordkeeping 11 hr., 44 min.
Learning about the law or the form 40 min.
Preparing the form 1 hr., 47 min.
Copying, assembling, and sending the form to the IRS 16 min.

For Form 941TeleFile:

Recordkeeping 5 hr., 1 min.
Learning about the law or the Tax Record 6 min.
Preparing the Tax Record 11 min.
TeleFile phone call 11 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send the tax form to this address.

Instructions for Form 941



Department of the Treasury
Internal Revenue Service

(Revised January 1999)

Employer's Quarterly Federal Tax Return

Section references are to the Internal Revenue Code unless otherwise noted.

Changes To Note

Social security wage base for 1999. Stop withholding social security tax after an employee reaches **\$72,600** in taxable wages.

Threshold for deposit requirement increased from \$500 to \$1,000. Effective July 1, 1998, if your net taxes for the quarter (line 13) are less than **\$1,000**, you are not required to make deposits for that quarter and may pay the taxes with Form 941.

General Instructions

Purpose of Form

Use Form 941 to report:

- Income tax you withheld from wages, including tips, supplemental unemployment compensation benefits, and third-party payments of sick pay.
- Social security and Medicare taxes.

Who Must File

Employers who withhold income tax on wages, or who must pay social security or Medicare tax, must file Form 941 each calendar quarter. After you file the first Form 941, you must file a return for each quarter, even if you have no taxes to report (but see the **seasonal employer** and **final return** information below). If you filed Form 941 on magnetic tape or by electronic or TeleFile methods, do not also file a paper Form 941.

Seasonal employers are not required to file for quarters when they regularly have no tax liability because they have paid no wages. To alert the IRS that you will not have to file a return for one or more quarters during the year, check the **Seasonal employer** box above line 1 on Form 941. The IRS will mail two Forms 941 to you once a year after March 1. The preprinted name and address information will not include the date the quarter ended. You must enter the date the quarter ended when you file the return. The IRS generally will not inquire about unfiled returns if at least one return showing tax due is filed each year. However, you must check the **Seasonal employer** box on each quarterly return you file. Otherwise, the IRS will expect a return to be filed for each quarter.

Exception. Employers of the following categories of workers do not usually file Form 941.

Household employees. See **Circular E**, Employer's Tax Guide, and **Pub. 926**, Household Employer's Tax Guide (Pub. 15).

Farm employees. See **Form 943**, Employer's Annual Tax Return for Agricultural Employees, and **Circular A**, Agricultural Employer's Tax Guide (Pub. 51).

Business reorganization or termination. If you sell or transfer your business, you and the new owner must each file a return for the quarter in which the transfer occurred.

Each should report only the wages it paid. A change from one form of business to another, such as from sole proprietorship to partnership or corporation, is considered a transfer and requires a new employer identification number (EIN). See section 1 of Circular E. If a change occurs, please attach a statement to your return that shows: new owner's name (or new name of the business); whether the business is now a sole proprietorship, partnership, or corporation; kind of change (sale or transfer); and date of change.

When a business is merged or consolidated with another, the continuing firm must file the return for the quarter in which the change took place. The return should show all wages paid for that quarter. The other firm should file a final return.

Final return. If you go out of business or stop paying wages, file a **final return**. Be sure to check the final return box and enter the date final wages were paid above line 1. See the **Instructions for Forms W-2 and W-3** for information on the earlier dates for the expedited furnishing and filing of Form W-2 when a final Form 941 is filed.

Preparing the Form

The following will allow the IRS to process Form 941 faster and more accurately:

- Make dollar entries without the dollar sign and comma (0000.00).
- Enter negative amounts in parentheses.
- File the Form 941 that has your preprinted name and address.

When To File

File starting with the first quarter in which you are required to withhold income tax or pay wages subject to social security and Medicare taxes.

Quarter	Ending	Due Date
Jan.-Feb.-Mar.	March 31	April 30
Apr.-May-June	June 30	July 31
July-Aug.-Sept.	Sept. 30	Oct. 31
Oct.-Nov.-Dec.	Dec. 31	Jan. 31

If you made deposits on time in full payment of the taxes for a quarter, you have 10 more days after the above due date to file. Your return will be considered timely filed if it is properly addressed and mailed First-Class or sent by an IRS designated delivery service on or before the due date. See Circular E for more information on IRS designated delivery services. If the due date for filing a return falls on a Saturday, Sunday, or legal holiday, you may file the return on the next business day.

Where To File

See the back of Form 941 for the mailing address for your return.

Depositing Taxes

If your net taxes (line 13) are \$1,000 or more for the quarter, you must deposit your tax liabilities at an authorized financial institution with **Form 8109**, Federal Tax Deposit Coupon, or by using the **Electronic Federal Tax Payment System (EFTPS)**. See section 11 of Circular E for information and rules concerning Federal tax deposits.

Reconciliation of Forms 941 and W-3

Certain amounts reported on the four quarterly Forms 941 for 1999 should agree with the **Form W-2**, Wage and Tax Statement, totals reported on **Form W-3**, Transmittal of Wage and Tax Statements, or equivalent magnetic media reports filed with the Social Security Administration (SSA) (Form 6559). The amounts that should agree are income tax withholding, social security wages, social security tips, Medicare wages and tips, and the advance earned income credit. If the totals do not agree, the IRS will require you to explain any differences and correct any errors. For more information, see section 12 of Circular E.

Penalties and Interest

There are penalties for filing a return late and paying or depositing taxes late, unless there is reasonable cause. If you are late, please attach an explanation to your return. There are also penalties for failure to (1) furnish Forms W-2 to employees and file copies with the SSA or (2) deposit taxes when required. In addition, there are penalties for willful failure to file returns and pay taxes when due and for filing false returns or submitting bad checks. Interest is charged on taxes paid late at the rate set by law. See Circular E for additional information.

Caution: *A trust fund recovery penalty may apply if income, social security, and Medicare taxes that must be withheld are not withheld or are not paid. The penalty is the full amount of the unpaid trust fund tax. This penalty may apply when these unpaid taxes cannot be immediately collected from the employer or business. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. See Circular E for more information.*

Ordering Forms and Publications

IRS forms and publications are available by calling 1-800-829-3676 or by accessing the IRS's Internet Web Site at **www.irs.ustreas.gov**. See Circular E for additional methods of obtaining forms and publications.

Forms W-4

Each quarter, send with Form 941 copies of any **Forms W-4**, Employee's Withholding Allowance Certificate, received during the quarter from employees claiming (1) more than 10 withholding allowances or (2) exemption from income tax withholding if their wages will normally be more than \$200 a week. For details, see section 9 of Circular E.

Forms W-5

Each eligible employee wishing to receive any advance earned income credit (EIC) payments must give you a completed **Form W-5**, Earned Income Credit Advance Payment Certificate. The employer's requirement to notify

certain employees about the EIC can be met by giving each eligible employee **Notice 797**, Possible Federal Tax Refund Due to the Earned Income Credit (EIC). See Circular E and **Pub. 596**, Earned Income Credit, for more information.

Employer Identification Number

If you do not have an EIN, apply for one on **Form SS-4**, Application for Employer Identification Number. Get this form from the IRS or the SSA. If you do not have an EIN by the time a return is due, write "Applied for" and the date you applied in the space shown for the number. Form SS-4 has information on how to apply for an EIN by mail or by telephone.

Note: *Always be sure the EIN on the form you file matches the EIN assigned to your business by the IRS. Do not show your personal social security number on forms calling for an EIN. Filing a Form 941 with an incorrect EIN or using another business' EIN may result in penalties and delays in processing your return.*

Preprinted Name and Address Information

If any of the preprinted name, EIN, or address information on Form 941 is not correct, cross it out and type or print the correct information.

Generally, preprinted address information on Form 941 is from IRS records. However, if you filed a change of address card with the United States Postal Service (USPS), that address information may be preprinted on your Form 941 and 941 Telefile Tax Record. If the preprinted address is from the USPS, your IRS address of record will be changed when your return is filed and properly processed.

Specific Instructions

State Code

If you made your deposits in a state other than that shown in your address on Form 941, enter the state code for the state where you made deposits in the box provided in the upper left corner of the form. Use the Postal Service two-letter state abbreviation as the state code. Enter the code "MU" in the state code box if you deposit in more than one state. If you deposit in the same state as shown in your address, do not make an entry in this box.

Line 1—Number of employees

Enter the number of employees on your payroll during the pay period including March 12 (on the January-March calendar quarter return only). Do not include household employees, persons who received no pay during the pay period, pensioners, or members of the Armed Forces. An entry of 250 or more on line 1 indicates a need to file Forms W-2 on magnetic media. Call the SSA at 1-800-772-1213 for more information on magnetic media filing requirements.

Line 2—Total wages and tips, plus other compensation

Enter the total of all wages paid, tips reported, taxable fringe benefits provided, and other compensation paid to your employees, **even if you do not have to withhold income or social security and Medicare taxes on it**. Do not include supplemental unemployment

compensation benefits, even if you withheld income tax on them. Do not include contributions to employee plans that are excluded from the employee's wages (e.g., section 401(k) and 125 plans).

If you get timely notice from your insurance carrier concerning the amount of third-party sick pay it paid your employees, include the sick pay on line 2. If you are an insurance company, do not include sick pay you paid policyholders' employees here if you gave the policyholders timely notice of the payments. See **Pub. 15-A**, Employer's Supplemental Tax Guide, for details.

Line 3—Total income tax withheld

Enter the income tax you withheld on wages, tips, taxable fringe benefits, and supplemental unemployment compensation benefits. An insurance company should enter the income tax it withheld on third-party sick pay here.

Line 4—Adjustment of withheld income tax

Use line 4 to correct errors in income tax withheld from wages paid in earlier quarters of the **same calendar year**. You may not adjust or claim a refund or credit for any overpayment of income tax that you withheld or deducted from an employee in a prior year. This is because the employee uses the amount shown on Form W-2 as a credit when filing his or her income tax return. Because any amount shown on line 4 increases or decreases your tax liability, the adjustment must be taken into account on line 17, Monthly Summary of Federal Tax Liability, or on **Schedule B (Form 941)**, Employer's Record of Federal Tax Liability. For details on how to report adjustments on the record of Federal tax liability, see the instructions for line 17 (on page 4) or the instructions for Schedule B (Form 941). Explain any adjustments on **Form 941c**, Supporting Statement To Correct Information, or an equivalent statement. See section 13 of Circular E.

Note: Do not adjust income tax withholding for quarters in earlier years unless it is to correct an administrative error. An administrative error occurs if the amount you entered on Form 941 is not the amount you actually withheld. For example, if the total income tax actually withheld was incorrectly reported on Form 941 due to a mathematical or transposition error, this would be an administrative error. The administrative error adjustment corrects the amount reported on Form 941 to agree with the amount actually withheld from the employees.

Line 5—Adjusted total of income tax withheld

Add line 4 to line 3 if you are reporting additional income tax withheld for an earlier quarter. Subtract line 4 from line 3 if you are reducing the amount of income tax withheld. If there is no entry on line 4, line 5 will be the same as line 3.

Line 6a—Taxable social security wages

Enter the total wages subject to social security taxes that you paid your employees during the quarter. Also include any sick pay and taxable fringe benefits subject to social security taxes. See section 5 of Circular E for information on types of wages subject to social security taxes. Enter the amount before deductions. Do not include tips on this line. Stop reporting an employee's wages (including tips) when they reach \$72,600 for 1999. However, continue to withhold income tax for the whole year on wages and tips even when the social security wage base of \$72,600 is reached. See the line 7a instructions for Medicare tax. If

none of the payments are subject to social security tax, check the box in line 8.

Line 6c—Taxable social security tips

Enter all tips your employees reported during the quarter until tips and wages for an employee reach \$72,600 in 1999. Do this even if you were not able to withhold the employee tax (6.2%). However, see the line 9 instructions.

An employee must report to you cash tips, including tips you paid the employee for charge customers, totaling \$20 or more in a month by the 10th of the next month. The employee may use **Form 4070**, Employee's Report of Tips to Employer, or a written statement.

Do not include allocated tips on this line. Instead, report them on **Form 8027**, Employer's Annual Information Return of Tip Income and Allocated Tips. Allocated tips are not reportable on Form 941 and are not subject to withholding of income, social security, or Medicare taxes.

Line 7a—Taxable Medicare wages and tips

Report all wages and tips subject to Medicare tax. Also include any sick pay and taxable fringe benefits subject to Medicare tax. See section 5 of Circular E for information on types of wages subject to Medicare tax. There is no limit on the amount of wages subject to Medicare tax. **If none of the payments are subject to Medicare tax, check the box in line 8.**

Include all tips your employees reported during the quarter, even if you were not able to withhold the employee tax (1.45%). However, see the line 9 instructions below.

Line 9—Adjustment of social security and Medicare taxes

Current period adjustments. In certain cases, amounts reported as social security and Medicare taxes on lines 6b, 6d, and 7b must be adjusted to arrive at your correct tax liability. See section 13 of Circular E for information on the following:

- Adjustment for the uncollected employee share of social security and Medicare taxes on tips.
- Adjustment for the employee share of social security and Medicare taxes on group-term life insurance premiums paid for former employees.
- Adjustment for the employee share of social security and Medicare taxes withheld by a third-party sick pay payer.
- Fractions of cents adjustment.

Enter the adjustments for sick pay and fractions of cents in the appropriate line 9 entry spaces. Enter the amount of all other adjustments in the "Other" entry space, and enter the total of the three types of adjustments, including prior period adjustments (discussed on page 4), in the line 9 entry space to the right. Provide a supporting statement explaining any adjustments reported in the "Other" entry space.

Prior period adjustments. Use line 9 to correct errors in social security and Medicare taxes reported on an earlier return. If you report both an underpayment and an overpayment, show only the net difference.

Because any prior period adjustments shown on line 9 increase or decrease your tax liability, the adjustments must be taken into account on line 17, Monthly Summary of Federal Tax Liability, or on Schedule B (Form 941). For details on how to report adjustments on the record of

Federal tax liability, see the instructions for line 17 below or the instructions for Schedule B (Form 941).

Explain any prior period adjustments on Form 941c. **Do not** file Form 941c separately from Form 941. Form 941c is not an amended return but is a statement providing necessary information and certifications supporting the adjustments on lines 4 and/or 9 on Form 941. If you do not have a Form 941c, you may file an equivalent supporting statement with the return providing the required information about the adjustment(s). See section 13 of Circular E.

If you are adjusting an employee's social security or Medicare wages or tips for a prior year, you must file **Form W-2c**, Corrected Wage and Tax Statement, with **Form W-3c**, Transmittal of Corrected Wage and Tax Statements.

Line 10—Adjusted total of social security and Medicare taxes

Add line 9 to line 8 if line 9 is positive (e.g., the net adjustment increases your tax liability). Subtract line 9 from line 8 if line 9 is negative.

Line 12—Advance earned income credit (EIC) payments made to employees

Enter advance EIC payments made to employees. Your eligible employees may elect to receive part of the EIC as an advance payment. Eligible employees who have a qualifying child must give you a completed Form W-5 stating that they qualify for the EIC. Once the employee gives you a signed and completed Form W-5, you must make the advance EIC payments. Advance EIC payments are generally made from withheld income tax and employee and employer social security and Medicare taxes. See section 10 of Circular E and Pub. 596.

If the amount of your advance EIC payments exceeds your total taxes (line 11) for the quarter, you may claim a refund of the overpayment or elect to have the credit applied to your return for the next quarter. Provide a statement with your return identifying the amount of excess payment(s) and the pay period(s) in which it was paid. See section 10 of Circular E.

Line 15—Balance due

You do not have to pay if line 15 is under \$1.

Generally, you should have a balance due only if your net tax liability for the quarter (line 13) is less than \$1,000. (However, see section 11 of Circular E regarding payments made under the **accuracy of deposits rule**). If line 13 is \$1,000 or more and you have deposited all taxes when due, the amount shown on line 15 (balance due) should be zero.

Caution: *If you fail to make deposits as required and instead pay the taxes with Form 941, you may be subject to a penalty.*

Line 16—Overpayment

If you deposited more than the correct amount for a quarter, you can have the overpayment refunded or

applied to your next return by checking the appropriate box. If you do not check either box, your overpayment will be applied to your next return. The IRS may apply your overpayment to any past due tax account under your EIN. If line 16 is under \$1, we will send a refund or apply it to your next return only on written request.

Line 17—Monthly Summary of Federal Tax Liability

Note: *This is a summary of your monthly tax liability, **not** a summary of deposits made. If line 13 is less than \$1,000, do not complete line 17 or Schedule B (Form 941).*

Complete line 17 only if you were a monthly schedule depositor for the entire quarter (see section 11 of Circular E for details on the deposit rules). You are a monthly schedule depositor for the calendar year if the amount of your Form 941 taxes reported for the lookback period is not more than \$50,000. The lookback period is the four consecutive quarters ending on June 30 of the prior year. For 1999, the lookback period begins July 1, 1997, and ends June 30, 1998.

Caution: *If you were a semiweekly schedule depositor during any part of the quarter, **do not** complete columns (a) through (d) of line 17. Instead, complete Schedule B (Form 941).*

Reporting adjustments on line 17. If the net adjustment during a month is negative (e.g., correcting an overreported liability in a prior period) and it exceeds the total liability for the month, do not enter a negative amount for the month. Instead, enter -0- for the month and carry over the unused portion of the adjustment to the next month. For example, Pine Co. discovered on February 6, 1999, that it overreported social security tax on a prior quarter return by \$2,500. Its Form 941 taxes for the 1st quarter of 1999 were: January \$2,000, February \$2,000, March \$2,000. Pine Co. should enter \$2,000 in column (a), -0- in column (b), \$1,500 in column (c), and the total, \$3,500, in column (d). The prior period adjustment (\$2,500) offsets the \$2,000 liability for February and the excess \$500 must be used to offset March liabilities. Since the error was not discovered until February, it does not affect January liabilities reported in column (a).

If excess negative adjustments are carried forward to the next quarter, do not show these excess adjustments on lines 4 or 9. Line 17, column (d), must equal line 13.

Who Must Sign

- **Sole proprietorship.** The individual owning the business.
- **Corporation.** The president, vice president, or other principal officer.
- **Partnership or unincorporated organization.** A responsible and duly authorized member or officer having knowledge of its affairs.
- **Trust or estate.** The fiduciary.

The return may also be signed by a duly authorized agent of the taxpayer if a valid power of attorney has been filed.

[Return to MATM Exhibits Page](#)

[illegible]



DECLARATION TO SUPPORT CLAIM OF TAXABILITY IN OTHER STATES OF THE UNITED STATES

A taxpayer asserting that it is not subject to California Sales Factor assignment under Section 25135(b), because it is subject to one of the taxes specified in Section 25122 in a sales destination state, must provide substantiation of its claim of taxability as follows:

- By showing that returns have been filed and taxes due have been paid (other than minimum taxes), or
- By providing a statement explaining why no return has been filed, and incontrovertible evidence that its activities in the destination state cause nexus for the taxation of the taxpayer under the U.S. Constitution and exceed the activities protected by Public Law 86-272

A taxpayer wishing to show that its activities in a destination state exceed those protected by Public Law 86-272 should provide the information described below and any other data necessary to support the claim of taxability. If the Franchise Tax Board agrees that the described activities cause the taxpayer to be taxable and the activities are substantiated by objectively verifiable taxpayer records, the sales in question will be assigned to the destination state for apportionment purposes, and a copy of the taxpayer's submission may be furnished to the destination state as authorized by law.

DESTINATION STATE _____

CORPORATION NAME (TAXPAYER)

CALIFORNIA CORPORATE NUMBER

FEDERAL EMPLOYER IDENTIFICATION NUMBER

EXPLANATION FOR NOT FILING RETURN(S) WITH DESTINATION STATE:

GENERAL DESCRIPTION OF BUSINESS ACTIVITIES IN DESTINATION STATE:

SPECIFIC ACTIVITY IN DESTINATION STATE _____

Date of commencement of activity _____

Date of termination of activity (if applicable) _____

Description of property in destination state:

Inventory _____

Other Owned Property _____

Rented Property _____

Description of employees in destination state (location and general
description of duties) _____

Name and address of the taxpayer's agent for service of process in the
destination state: _____

THE ABOVE INFORMATION SUBMITTED BY:

NAME: _____

TITLE: _____ TELEPHONE: _____

ADDRESS: _____

Under penalty of perjury, I declare that the information furnished is to the best of my knowledge and belief, true, correct and complete.

SIGNATURE: _____ DATE: _____

INDIVIDUAL TO PROVIDE SUPPORTING DOCUMENTATION (if other than above):

NAME: _____ TELEPHONE: () _____

AREA CODE

Japan Corp 0123456
Schedule of Revised Net Income
12/90 - 12/92

5/20/99
INT

Schedule I

	Reference	IYE 12/90	IYE 12/91	IYE 12/92
Net Income After State Adjustments	Sch. I a	52,443,663	54,636,782	82,858,413
Nonbusiness Income and Losses:				
-		0	0	0
-		0	0	0
-		0	0	0
Total Nonbusiness Items:		0	0	0
Balance:		52,443,663	54,636,782	82,858,413
Add: Interest Offset		0	0	0
Unitary Business Income		52,443,663	54,636,782	82,858,413
Apportionment Percentage	Sch. II	0.2474%	0.2169%	0.2939%
Amount Apportioned to California		129,757	118,518	243,561
Nonbusiness Income or Loss Wholly Attributable To California:				
-		0	0	0
-		0	0	0
-		0	0	0
Total California Nonbusiness Items:		0	0	0
Balance:		129,757	118,518	243,561
Less: Interest Offset		0	0	0
Net Income Before Contributions Adj.		129,757	118,518	243,561
Contributions Adjustment		0	0	0
Net Income After Contributions Adj.		129,757	118,518	243,561
Net Operating Loss Carryover		0	0	0
Net Income for State Purposes		129,757	118,518	243,561
Tax Rate:		9.3%	9.3%	9.3%
Tax		12,067	11,022	22,651
Minimum Tax Corporations		0	0	0
Other Taxes		0	0	0
Less: Tax Credits		0	0	0
Net Tax		12,067	11,022	22,651
Alternative Minimum Tax	Sch. I f	0	0	0
Total Tax		12,067	11,022	22,651
Less: Previously Assessed		800	800	800
Additional Tax (Overpayment)		11,267	10,222	21,851
TOTAL				43,341

**Multistate Audit
Technique Manual**

**Japan Corp 0123456
State Adjustments to Income
12/90 - 12/92**

**5/20/99
INT**

Schedule I a

	Reference	IYE 12/90	IYE 12/91	IYE 12/92
(In Yen)				
Net Income Per Return:		5,497,250,000	5,899,250,000	7,615,750,000
Adjustments:				
Taxes Measured by Income	Sch. I b	876,500,000	958,000,000	1,156,500,000
Additions to Reserves	Sch. I c	2,783,500,000	2,171,000,000	3,612,750,000
Less: Actual Expenses allowed	Sch. I c	-1,567,000,000	-1,681,750,000	-1,874,750,000
-		0	0	0
-		0	0	0
Revised State Net Income (In Yen)		7,590,250,000	7,346,500,000	10,510,250,000
Conversion Rate (weighted average)		144.7315	134.4607	126.8459
Revised State Net Income (U.S. \$)		52,443,663	54,636,782	82,858,413

Japan Corp 0123456
Revised Apportionment Formula
12/90 - 12/92

5/20/99
INT

Schedule II

	IYE 12/90		IYE 12/91		IYE 12/92	
	Amount	%	Amount	%	Amount	%
Property Factor (Sch. III)						
Total Property	96,338,530,000		106,761,307,000		118,902,943,000	
California Property	313,692,396		318,372,846		432,612,336	
%		0.3256%		0.2982%		0.3638%
Payroll Factor (Sch. IV)						
Total Payroll	17,652,944,000		20,220,780,000		22,210,021,000	
California Payroll	72,771,432		67,373,820		105,567,500	
%		0.4122%		0.3332%		0.4753%
Sales Factor (Sch. V)						
Total Sales	318,288,250,000		346,688,750,000		367,788,000,000	
California Sales	14,057,481		67,106,646		157,027,867	
%		0.0044%		0.0194%		0.0427%
Total %		0.7423%		0.6508%		0.8818%
Average % (To Sch. I)		<u>0.2474%</u>		<u>0.2169%</u>		<u>0.2939%</u>

**Multistate Audit
Technique Manual
June, 1995**

**Japan Corp. 0123456
Computation of Property Everywhere
12/90 - 12/92**

**5/20/99
INT
Schedule III
Pg. 1 of 2**

Description (In Yen)	Reference	IYE 12/89	IYE 12/90	IYE 12/91	IYE 12/92
Everywhere Property Per Return (year end):		0	0	0	0
Adjustments (year end):					
Worldwide Property Per Consolidated Financial Stmts.:					
Inventory	w/p 9/1	9,471,000,000	9,581,750,000	9,761,500,000	9,749,750,000
Fixed Assets	w/p 9/1	63,000,500,000	70,895,250,000	78,139,250,000	85,204,250,000
-					
-					
Total End of Year		72,471,500,000	80,477,000,000	87,900,750,000	94,954,000,000
Total Beginning of Year			72,471,500,000	80,477,000,000	87,900,750,000
Total Beginning and Ending			152,948,500,000	168,377,750,000	182,854,750,000
Average Beginning and Ending			76,474,250,000	84,188,875,000	91,427,375,000
Adjustments: (average)					
-			0	0	0
-			0	0	0
Revised Owned Property			76,474,250,000	84,188,875,000	91,427,375,000
Rent Expense as Reported:			0	0	0
Adjustments:					
Worldwide Rent Expense	w/p 9/14		2,483,035,000	2,821,554,000	3,434,446,000
-			0	0	0
-			0	0	0
Rents Capitalized X 8			19,864,280,000	22,572,432,000	27,475,568,000
Property Everywhere (in Yen)	To Sch. II		96,338,530,000	106,761,307,000	118,902,943,000

5/20/99

**Japan Corp. 0123456
California Property
12/90 - 12/92**

**INT
Schedule III
Pg. 2 of 2**

Description	Reference	IYE 12/89	IYE 12/90	IYE 12/91	IYE 12/92
California Property at year end Per Return:		0	0	0	0
Adjustments (year end):					
Property acquired in 12/88	w/p 9/3	890,443	494,534	475,889	453,485
Average Conversion Rate		128.15	128.15	128.15	128.15
Stated in Yen		114,110,270	63,374,532	60,985,175	58,114,103
Property acquired in 12/89	w/p 9/4	556,871	128,674	99,643	97,564
Average Conversion Rate		137.96	137.96	137.96	137.96
Stated in Yen		76,825,923	17,751,865	13,746,748	13,459,929
Property acquired in 12/90	w/p 9/5		197,028	103,224	103,224
Average Conversion Rate			144.7315	144.7315	144.7315
Stated in Yen			28,516,158	14,939,764	14,939,764
Property acquired in 12/91	w/p 9/6			1,007,421	669,998
Average Conversion Rate				134.4607	134.4607
Stated in Yen				135,458,533	90,088,400
Property acquired in 12/92	w/p 9/7				1,350,811
Average Conversion Rate					126.8459
Stated in Yen					171,344,837
Total End of Year (in Yen)		190,936,194	109,642,555	225,130,221	347,947,034
Total Beginning of Year			190,936,194	109,642,555	225,130,221
Total Beginning and Ending			300,578,749	334,772,776	573,077,254
Average Beginning and Ending			150,289,374	167,386,388	286,538,627
Adjustments: (average)					
-			0	0	0
-			0	0	0
Revised Owned Property			150,289,374	167,386,388	286,538,627
Rent Expense as Reported:			0	0	0
Adjustments:					
US Corp Rents (in US \$)	w/p 9/16		141,126	140,363	143,948
-			0	0	0
-			0	0	0
Rents Capitalized X 8			1,129,008	1,122,904	1,151,584
Conversion Rate (weighted average)			144.7315	134.4607	126.8459
Capitalized Rents (in Yen)			163,403,021	150,986,458	146,073,709
California Property (in Yen)	To Sch. II		313,692,396	318,372,846	432,612,336

Note: This example uses the weighted average conversion rate for the year in which the property was acquired. The Regulations call for the exchange rate as of the date of acquisition. If the difference is material and if the information necessary to perform the calculations is available, a more precise conversion may be done.

**Multistate Audit
Technique Manual
June, 1995**

**Japan Corp 0123456
Computation of Payroll Factor
12/90 - 12/92**

**5/20/99
INT**

Schedule IV

Description	Reference	IYE 12/90	IYE 12/91	IYE 12/92
Computation of Total Payroll Everywhere				
Total Payroll Everywhere				
Per Return (In Yen)		17,652,944,000	20,220,780,000	22,210,021,000
Adjustments:				
-		0	0	0
-		0	0	0
-		0	0	0
-		0	0	0
Total Payroll Everywhere (in Yen)	To Sch. II	<u>17,652,944,000</u>	<u>20,220,780,000</u>	<u>22,210,021,000</u>
Computation of California Payroll				
California Payroll per Return (in U.S. \$)		502,803	501,067	832,250
Adjustments:				
-		0	0	0
-		0	0	0
-		0	0	0
-		0	0	0
California Payroll (in U.S. \$)		<u>502,803</u>	<u>501,067</u>	<u>832,250</u>
Conversion Rate (weighted average)		144.7315	134.4607	126.8459
Total California Payroll (in Yen)	To Sch. II	<u>72,771,432</u>	<u>67,373,820</u>	<u>105,567,500</u>

**5/20/99
INT**

**Japan Corp 0123456
Computation of Sales Factor
12/90 - 12/92**

Schedule V

Description	Reference	IYE 12/90	IYE 12/91	IYE 12/92
Computation of Total Sales Everywhere				
Total Sales Everywhere Per Worldwide Financial Statements (In Yen)	w/p 6/3	318,288,250,000	346,688,750,000	367,788,000,000
Adjustments:				
-		0	0	0
-		0	0	0
-		0	0	0
-		0	0	0
Total Sales Everywhere (in Yen)	To Sch. II	<u>318,288,250,000</u>	<u>346,688,750,000</u>	<u>367,788,000,000</u>
 Computation of California Sales				
California Sales per Return (in U.S. \$)		97,128	335,519	460,114
Adjustments:				
US Corp: Sales to Spain	w/p 11/2	0	163,561	476,879
US Corp: Sales to Thailand	w/p 11/2	0	0	300,949
-		0	0	0
-		0	0	0
California Sales (in U.S. \$)		<u>97,128</u>	<u>499,080</u>	<u>1,237,942</u>
Conversion Rate (weighted average)		<u>144.7315</u>	<u>134.4607</u>	<u>126.8459</u>
Total California Sales (in Yen)	To Sch. II	<u>14,057,481</u>	<u>67,106,646</u>	<u>157,027,867</u>

FOREIGN COUNTRY ACCOUNTING PRACTICES

[Return to MATM Exhibits Page](#)

When auditing foreign-owned corporations, the financial statements will often be prepared using the accounting principles of a foreign country. These accounting principles may be significantly different from the generally accepted accounting principles (GAAP) used in the United States. In order to recognize issues and verify that foreign income is properly represented in the combined report, the auditor should become familiar with the basic accounting practices of the foreign parent's country.

There are several publications available that summarize the significant accounting principles of most major countries. A three-volume Matthew Bender "*World Accounting*" text covers the accounting principles of 20 countries. The AICPA publishes a series entitled "*The Accounting Profession in (particular country)*", and some of the "Big-6" accounting firms publish similar handbooks. Tax Management Inc (BNA) publishes a series of Foreign Income Portfolios entitled "*Business Operations in (particular country)*" which focus primarily on the foreign tax accounting treatment. Auditors should investigate which publications are available in their program office or at the public library in their area.

The table at the end of this exhibit summarizes some of the significant accounting practices for several foreign countries. The table is intended as a quick reference, but should not be a substitute for more in-depth research, particularly if a material issue is identified.

Foreign depreciation and inventory issues are discussed at MATM 6020 and MATM 6075. Some other common issues that auditors will encounter with respect to foreign accounting practices are as follows:

Asset Revaluation:

Many foreign countries permit some type of asset revaluation. This is most common with respect to investments, but also may occur for property, plant and equipment. In some cases, assets will be written-down when their market value falls below historical cost, and the unrealized losses will reduce net income. In other cases, the losses will be charged to a revaluation reserve until they are recognized. Some countries also allow asset values to be written-up to reflect price increases. The financial statements will usually disclose the current year and cumulative revaluation amounts. If depreciation or amortization was computed based upon the revalued amounts, those figures will often be disclosed as well.

The property factor should reflect historical cost rather than revalued amounts. If material, adjustments to net income should be made to back out unrealized revaluation gains and losses. Corresponding adjustments may need to be made for depreciation or amortization expense. When the revalued assets are disposed of, offsetting adjustments will be necessary to reflect the book/California tax basis difference that will exist.

In cases where the financial statement disclosure is very good or where the revaluation applies to a small number of very large assets, it may not be difficult to obtain the information necessary to make adjustments. In other cases, it may

be necessary to make reasonable approximations as permitted by Regulation §25106.5-3(e)(1) (see MATM 5145). For example, a foreign corporation with a large portfolio of securities may value the portfolio at lower of cost or market value at year end, and report the resulting unrealized loss in net income. If the loss is material, it should be reversed when determining worldwide combined income. When the securities are sold in later years, the California tax gain will be smaller than the book gain because of the difference in the basis of the securities. In a perfect world, the taxpayer would be able to trace the auditor's restoration of the write-down adjustments to the specific securities involved and correctly compute the California gain or loss. Realistically however, either the information needed to make this adjustment does not exist, or the effort and expense involved would be disproportionate to the potential tax at issue. A reasonable approximation might be to allow the restored write-downs to be amortized over a reasonable period of time, beginning with the year after the disallowance. A reasonable period of time will depend upon the facts and circumstances of the taxpayer. For some taxpayers, the average holding period of the written-down securities might be used. In other cases, an agreed upon period, such as five years, might be adequate.

Reserves:

The accounting principles of many countries (including the U.S.) utilize reserves. If large losses or expenditures are anticipated due to an future event such as a business restructuring or possible litigation damages, then the corporation may charge the unrealized loss against income in the current year and establish a reserve account. As the losses or expenditures are actually incurred, they will be charged against the reserve. In other cases, unrealized gains or losses (such as gains or losses from asset revaluations) will be run through a reserve account *instead* of being charged against income. When the gains or losses become recognized, they are backed out of the reserve account and charged to income. This type of reserve is intended to provide information to investors and does not result in the acceleration of unrealized losses.

Material reserves are usually disclosed in the financial statements (an exception is Germany, which only requires disclosure for certain limited types of contingencies). If the reserves represent unrealized losses that have been charged against income, then adjustments should be made to restore the losses. The taxpayer should be asked to provide documentation to establish when the losses were actually recognized so that offsetting adjustments can be made in subsequent years.

Unrealized Translation Gains/Losses:

Translation practices vary from country to country, but it is common for unrealized translation losses to be reported in net income. If the financial statements do not disclose the amounts of unrealized translation losses, the auditor should request the figures from the taxpayer.

Many countries use current exchange rates instead of historical rates to translate assets. Although this difference will not usually create a large tax effect, it could be material if significant changes in the exchange rates have occurred. California

translation rules are covered in MATM 5320.

Consolidation Practices:

Not all countries require all majority-owned subsidiaries to be included in the consolidated return. Therefore, the auditor can not necessarily assume that the foreign financial statements include the income of all unitary affiliates. The financial statements may disclose the non-consolidated subsidiaries. As a standard audit procedure, the auditor should identify which entities have been included, and conduct a search for other majority-owned affiliates. Lexis/Nexis, corporate directories, and articles in trade journals or other publications are often good sources for locating affiliates.

Subsidiaries Accounted for Under Equity Method:

For book purposes, a corporation's basis in a subsidiary's stock may be increased or decreased based on the subsidiary's earnings. For California tax purposes, the basis is generally the original cost plus contributed capital. This difference may create significant book/tax differences when the stock is sold. Some countries allow subsidiaries to be reported on an equity basis for financial statement presentation even if ownership is 50% or less. Any income attributable to these subsidiaries would be excluded from the combined report because of insufficient ownership. Furthermore, any dividends paid by the subsidiaries would be included in income for California even though the dividends may be eliminated from the financial statements. The auditor may have to request the consolidation workpapers or the pre-consolidation books of account to find the dividend amounts.

Country	Asset Valuation	Currency Translation	Consolidation Practices	Other Comments
Australia	Unrealized losses from investment writedowns included in income. Asset writedowns permitted but charged to reserve.	Current rate method or temporal rate method (end-of-year rates for monetary items, historical rates for nonmonetary items). Unrealized translation gains/losses reported in income.	All majority-owned subs included in consolidation.	
Canada	Unrealized losses from long & short term investment writedowns reported in income. For years beginning before 12/1/90, capital assets occasionally written up to appraised values.	Current rate method or temporal rate method (end-of-year rates for monetary items, historical rates for nonmonetary items). Unrealized translation gains/losses reported in income, but may be deferred and amortized if related to long-term monetary investments or liabilities.	Consolidated statements generally include majority-owned subs except for banks and life insurance companies. Entities are also excluded if their business operations are substantially different from operations of the rest of the group.	Stock investments accounted for using equity method if ownership exceeds 20%.
France	Investments in securities carried at lower of cost or market, unrealized losses reported on profit & loss statement as "other financial charges." Write-downs of property also permitted.	Unrealized translation gains deferred until they become realized, but unrealized losses flow through the profit & loss account.	Full integration of companies controlled over 50%. Companies controlled at least 20% but not over 50% reported using equity method. Joint ventures owned by several companies use proportional integration method.	All leases accounted for as operating leases, but notes to financial statements contain disclosures regarding capital leases.
Germany	Marketable securities carried at lower of cost or market. If further reduction in market value is expected within 2 years, the lower	No accounting standards for translating foreign currency financial statements. If foreign assets/liabilities are significant, a statement	Prior to 1990, only German companies required to be included in consolidated statements. As of 1/1/90, all majority-owned subs should	Financial statement disclosure very limited. For example, many countries permit reserves for contingencies or anticipated

Country	Asset Valuation	Currency Translation	Consolidation Practices	Other Comments
	value may be used. Long-term investments written down if decline in value expected to be permanent. Write-downs not disclosed.	regarding the translation is required in the notes. Unrealized foreign currency transaction gains related to short-term receivables and payables may be included in income, but generally are deferred. Unrealized losses reported currently.	generally be consolidated, but there are many exceptions. For example, subs may be excluded if the controlling company intends to dispose of the sub, or if inclusion would causes high costs or significant delay in obtaining information needed for the consolidation. Exclusion required if the sub is in a significantly different line of business from the rest of the group.	liabilities, but require that material reserves be disclosed in the financial statements. Germany also allows such reserves, but only requires disclosure for certain limited types of contingencies. Close inspection of notes to the financial statements and "management reports" (similar to U.S. annual reports) may provide some clues.
Japan	Marketable securities and long-term investments in equity securities may be written down to market, and the unrealized losses are reported in the income statement.	Short-term monetary assets/obligations translated at end-of-year exchange rates, other assets translated at historical rates. Unrealized gains/losses may be included in income.	Only significant subs (those whose sales or assets amount to at least 10% of the combined sales/assets of the group) are required to be consolidated. Investments in unconsolidated subs included under equity method.	Public companies generally prepare 2 separate sets of financial statements, one for distribution to shareholders, and a more detailed one to file with the Ministry of Finance.
Taiwan	Short-term investments are carried at lower of cost or market, and unrealized losses are reported in income. Real, tangible and intangible property may be stepped up in certain circumstances to reflect increasing price levels. The revaluation increment is	The weighted average exchange rate for the period is used to translate revenue and expense items. Assets and liabilities are translated using the current rate. Unrealized gains and losses are reported as an exchange adjustment to stockholder's equity.	Majority-owned subs should generally be consolidated. If inclusion is not proper because of a sub's business activities, the equity method of accounting for that subsidiary should be used. The equity method should be used for subs owned between 20% and 50%.	

Country	Asset Valuation	Currency Translation	Consolidation Practices	Other Comments
	credited to stockholder's equity instead of income. Writedowns of long-term equity investments are charged to stockholder's equity unless the decrease is permanent, in which case the loss is reported in income.			
United Kingdom	Tangible and intangible property and investments may be revalued. Unrealized losses from permanent declines in value are charged to the profit & loss account. Other unrealized gains/losses charged to a revaluation reserve.	Income statements of foreign subsidiaries translated at end-of-year rates.	All majority-owned subs generally included. Exceptions include immaterial subs, and subs whose activities are substantially different from the rest of the group.	Separate statutory requirements govern financial reporting in Great Britain (England, Scotland & Wales) and in Northern Ireland, but the requirements are virtually identical.

**SAMPLE STATEMENT CONFIRMING PRELIMINARY UNITARY FACTS AND
THE TAXPAYER'S AGREEMENT WITH THE PROPOSED AUDIT
ADJUSTMENT**

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Based upon the preliminary information described below, Corporations X and Y appear to be unitary for IYEs xx/xx - xx/xx. The taxpayer has indicated it is in agreement that Corporations X and Y are unitary, therefore it is not necessary to complete the unitary examination at this time.

By signing this statement, you are confirming that the facts described below are accurate with respect to IYEs xx/xx - xx/xx. You are also confirming your agreement to the unitary combination of Corporations X and Y for IYEs xx/xx - xx/xx.

If any of the facts or statements contained in this document are found by the Franchise Tax Board staff to be inaccurate, additional factual development necessary to complete the examination of this issue may be undertaken at that time. In addition, if the adjustment is protested or if a claim for refund is subsequently filed, the case will be returned to the field for complete factual development.

Preliminary Facts Regarding the Unitary Relationship Between Corporations X and Y:

[Auditor: List the facts or information that leads you to believe that the corporations would probably be found to be unitary. Include information obtained from discussions with the taxpayer, third party sources such as annual reports, and initial IDRs, as well as any facts developed in prior audit cycles which you believe to still be present in the current cycle. Since the tax personnel are unlikely to have personal knowledge of the operations, the statement should be signed by a principle officer of the corporation.]

Statement of Taxpayer:

I have personal knowledge that the facts listed above are accurate with respect to the income years ending xx/xx - xx/xx. I also agree with the conclusion that Corporations X and Y are unitary, and do not plan to protest that issue.

Authorized Signature: _____

Print Name, Title: _____

An individual's signature above shall be prima facie evidence that such individual is authorized to sign this statement on behalf of the taxpayer.